

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC IMMEDIATE 7208

C O N F I D E N T I A L MEXICO 3237

E.O. 11652: GDS

TAGS: ETRD, EIND, MX

SUBJ: MEXICAN REQUEST FOR REDUCTION OF US TARIFF ON TEQUILA

REF: STATE 268085; STATE 182706

PASS HARVEY WINTER (EB/CBA/BP)

1. MAIN OBJECTIVE OF ING. CESAR LARRANAGA DIRECTOR GENERAL OF GOM BUREAU OF STANDARDS, IN COMING TO WASHINGTON THIS WEEK (MEXICO 3170; STATE 82917) IS TO OBTAIN REDUCTION IN US TARIFF ON TEQUILA. LARRANAGA MAINTAINS THAT USG MADE "FIRM COMMITMENT" TO REDUCE US TARIFF ON TEQUILA AS QUID PRO QUO FOR GOM INCREASE IN IMPORT QUOTA FOR BOURBON AT TIME OF BATF EXCLUSIVE DESIGNATION HEARINGS IN JULY 1973 AND HAS FAILED TO KEEP ITS PART OF BARGAIN. RECORD OF BATF HEARINGS DOES NOT CONTAIN ANY SUCH "FIRM COMMITMENT" BY US PARTIES INVOLVED IN HEARINGS BUT DOES CONTAIN AN OFFER TO SUPPORT GOM EFFORTS FOR REDUCTION IN TEQUILA TARIFF BEFORE APPROPRIATE USG AUTHORITIES.

2. DISTILLED SPIRITS COUNCIL OF THE UNITED STATES RECOMMENDS THAT USG SHOULD ACT FAVORABLY ON TEQUILA TARIFF REDUCTION ONLY IN EXCHANGE FOR REDUCTION IN MEXICAN TARIFF ON BOURBON AND/OR GRANTING OF MEXICAN IMPORT QUOTA FOR US WINE.

3. UNDER MEXICO-AUTHORED AND UN-APPROVED (USG VOTED AGAINST) CHARTER OF ECONOMIC RIGHTS AND DUTIES OF STATES, GOM REJECTS PRINCIPLE OF RECIPROCITY IN TRADE RELATIONS
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BETWEEN DEVELOPED AND DEVELOPING NATIONS. USG, IF IT

SPECIFICALLY LINKS REDUCTION IN TEQUILA TARIFF WITH GOM REDUCTION IN BOURBON TARIFF OR GRANTING OF WINE QUOTA, WILL TOUCH SENSITIVE NERVE AND PROVOKE SHARP NEGATIVE REACTION. LARRANAGA WILL INSIST THAT REDUCTION IN TEQUILA TARIFF IS QUID PRO QUO FOR INCREASE IN BOURBON QUOTA. (FYI: IN CONVERSATION WITH EMBOFF PRIOR TO DEPARTURE, LARRANAGA SAID HE WOULD VIGOROUSLY OPPOSE QUOTE FOR US WINE IF THERE WAS ANY SUGGESTION OF LINKAGE WITH REDUCTION IN TEQUILA TARIFF BUT WOULD SUPPORT EMBASSY'S EFFORTS TO OBTAIN WINE QUOTA IF REQUEST WERE ISOLATED FROM OTHER ISSUES.")

4. EMBASSY BELIEVES THAT BOTH USG AND GOM CAN ACHIEVE RESPECTIVE GOALS WITHOUT NEED TO RESORT TO ANY FORMAL LINKAGE FORMULAS. GOM HAS RECENTLY ILLUSTRATED ITS GOOD FAITH BY OVERRULING DECISION BY DECENTRALIZED IMPORT COMMITTEE IN CIUDAD JUAREZ FREE-ZONE TO BAN BOURBON IMPORTS. MOREOVER, EMBASSY BELIEVES IT STANDS BETTER CHANCE OF OBTAINING QUOTA FOR US WINE IF USG REDUCED TEQUILA TARIFF EVEN THOUGH THERE IS NO SPECIFIC GOM COMMITMENT TO DO SO. KEY ELEMENT IS TO CREATE A COOPERATIVE SPIRIT IN WHICH BOTH SIDES ACHIEVE FAVORABLE RESULTS EVEN WHEN GOAL IS NOT FORMALLY LINKED TO ANY OTHER.

5. TEQUILA IS NOW SEPARATE ITEM IN U.S. TARIFF SCHEDULE BUT IS STILL PAYING RELATIVELY HIGH TARIFF IN ORIGINALLY ASSESSED WHEN IT WAS INCLUDED IN BASKET CATEGORY FOR ALCOHOLIC BEVERAGES. OTHER IMPORTED SPIRITS, SUCH AS SCOTCH AND GIN, PAY LOWER TARIFFS. THEREFORE, GOM ARGUES THAT USTS PLACES TEQUILA AT A COMPETITIVE DISADVANTAGE VIS-A-VIS OTHER IMPORTS IN SAME CATEGORY. ON OTHER HAND, MEXICAN TARIFF ON BOURBON IS IDENTICAL TO THAT PLACED ON ALL IMPORTED WHISKIES, AS WELL AS ON GIN, VODKA, NCOGNAZ AND BRANDY. IN ORDER TO REDUCE MEXICAN TARIFF ON BOURBON, GOM WOULD HAVE TO CREATE SEPARATE TARIFF ITEM. SHOULD GOM REDUCE TARIFF ON ALL WHISKIES, SCOTCH WOULD STAND TO BE MAJOR BENEFICIARY AND NOT BOURBON CONSIDERING THE DISPROPORTIONATE VOLUME OF MARKET SALES.

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6. FURTHERMORE, EMBASSY HAS SERIOUS DOUBTS THAT REDUCTION IN MEXICAN TARIFF ON BOURBON WOULD RESULT IN ANY LARGE INCREASE IN SALES. WITH SUBSTANTIAL INCREASE IN QUOTA TO 45,000 CASES FOR 1975, GLOBAL IMPORT REQUESTS FOR BOURBON WILL LIKELY NOT EXCEED 18,000 CASES. THIS IS NOTABLE INCREASE OVER SOME 8,000 CASES IMPORTED IN 1973 BEFORE QUOTA RAISED BUT STILL FAR FROM TOTAL NOW PERMITTED BY GOM. PRINCIPAL REASON FOR LOW SALES IN UNFAMILIARITY

OF MEXICAN CONSUMERS WITH BOURBON; ALMOST ALL BOURBON SALES IN MEXICO ARE TO FOREIGN RESIDENTS AND TOURISTS. EMBASSY HAS BEEN ENCOURAGING ALL BOURBON IMPORTER/DISTRIBUTORS TO UNDERTAKE MAJOR ADVERTISING CAMPAIGN TO INTRODUCE MEXICANS TO THEIR PRODUCT BUT THERE HAS BEEN NO INTEREST SHOWN ON THEIR PARTY. MOST ALLEGE THAT THEIR US SUPPLIERS DO NOT PROVIDE MONEY FOR THIS PURPOSE AND SIZE OF MARKET DOES NOT JUSTIFY EXPENDITURE. MORE AGGRESSIVE MARKETING BY EXPORTERS AND LOCAL DISTRIBUTORS WOULD CONTRIBUTE MORE TO INCREASE IN SALES THAN REDUCTION IN TARIFF. FACILITIES OF US TRADE CENTER IN MEXICO CITY ARE AVAILABLE FOR PROMOTIONAL ACTIVITIES OF THIS TYPE.

7. EMBASSY RECOMMENDS THAT USG GIVE LARRANAGA VIP TREATMENT DURING HIS WASHINGTON VISIT AND THAT IT RESPOND AS SYMPATHETICALLY AS POSSIBLE TO HIS REQUEST FOR REDUCTION IN TEQUILA TARIFF. TO SOME EXTENT LARRANAGA'S OWN POLITICAL FUTURE RIDES ON SUCCESS OF HIS EFFORTS IN THIS REGARD. IN RECENT TELEPHONE CONVERSATION WITH ADMIRAL MARSHALL, DIRECTOR OF DISTILLED SPIRITS COUNCIL, EMBASSY SUGGESTED THAT COUNCIL COULD ADVANCE US COMMERICAL INTERESTS IN MEXICO IF IT WOULD ATTEMPT TO CREATE POSITIVE ATMOSPHERE WITH GOM REPRESENTATIVE AND AVOID INSISTENCE ON LINKAGES OR THREATS OF RETALIATORY MEASURES SHOULD GOM FAIL TO ACCEDE TO OUR REQUESTS (SEE PARA 2 ABOVE). EMBASSY WOULD APPRECIATE DEPT. REINFORCING OUR EFFORTS WITH ADMIRAL MARSHALL.

8. EMBASSY WOULD BE INTERESTED IN RECEIVING REPORT ON LARRANAGA'S ACTIVITIES IN WASHINGTON AND ANY AGREEMENTS RESULTING THEREFORE.
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